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**Summary on International Financial Statement Analysis**

Financial statement analysis is a part of a business analysis. Business analysis is the evaluation of a company’s business environment, strategies, financial position, and performance to be ready to make decisions with reference to that company. Business analysis is conducted using relevant information available a few companies. Financial statements are an important source of information for conducting business analysis.

Financial statement analysis consists of the following steps:

i. Accounting analysis;

ii. Financial analysis; and

iii. Prospective analysis.

**1. Accounting analysis:** Thisbegins with an evaluation of the extent to which a company’s financial statements reflect economic reality. Accounting analysis involves identifying distortions in financial statements and making adjustments to the financial statements where possible. There are three common sources of distortion in financial statements:

i. Accounting standards that are inconsistent with economic reality;

ii. Estimation errors made by managers in applying accounting standards; and

iii. The intentional manipulation of financial statements by managers; often referred to as earnings management.

**2. Financial analysis:** A financial analysis is carried out by professionals who prepare reports through the use of information obtained from financial statements and other reports . It involves the use of adjusted financial statement information to conduct:

i. Cash flow analysis: the analysis of how a company generates and uses cash.

ii. Profitability analysis: with a focus on return on invested capital.

iii. Risk analysis: including an evaluation of liquidity and solvency to assess a company’s ability to meet its obligations.

**3. Prospective Analysis:** This have to do with combining the results of accounting analysis and financial analysis, along with an analysis of the business environment and company strategy, to forecast future financial statement information, especially cash flows and income.

**Reasons to Analyze Foreign Financial Statements:** reasons why financial statements are analyzed include: Foreign Portfolio Investment; International Mergers and Acquisition; Making credit decisions about foreign customers; Evaluating the financial health of foreign suppliers; Benchmarking against global competitors etc.

**Potential Problems in Analyzing Foreign Financial Statements**

Some of the potential problems that may arise in analysing foreign financial statements include: Data Accessibility; Language; Terminology; Extent of Disclosure; Timeliness; Differences in Accounting Principles etc.